

# Joint Economic Committee WEEKLY ECONOMIC DIGEST

Senator Charles E. Schumer, Chairman  
Congresswoman Carolyn B. Maloney, Vice Chair

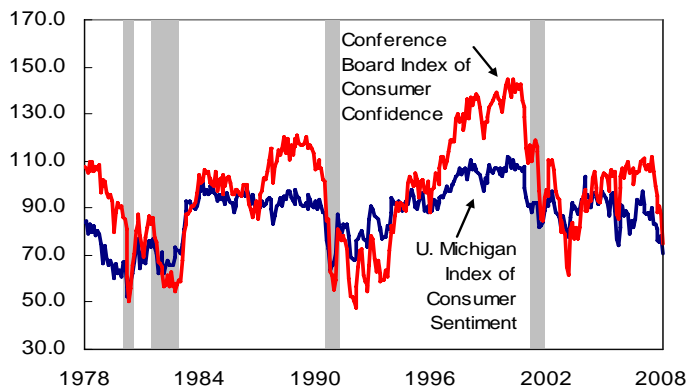
March 3, 2008

## ECONOMIC NEWS

### Housing Market, Consumer Confidence Slide

**Sales and prices of both existing and new homes continue to decline.** According to the National Association of Realtors (NAR), seasonally adjusted sales of existing homes declined 0.4 percent between December 2007 and January 2008 and were 23.4 percent lower than January 2007. Seasonally adjusted sales of new single-family homes declined similarly with a 2.8 percent drop over the month and 33.9 percent over the year, according to figures released by the Census Bureau and HUD. The seasonally adjusted estimate of new houses for sale at the end of January was 482,000. This represents a supply of 9.9 months at the current sales rate. Additionally, home prices continued a downward trend as existing home prices declined from \$207,000 in December to \$201,100 in January and median new home prices declined from \$225,600 to \$216,000.

Consumer Confidence Continues to Erode



Note: The gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

Sources: University of Michigan, The Conference Board, and the National Bureau of Economic Research.

**Consumer confidence is down.** The Conference Board Consumer Confidence Index fell sharply in February, to its lowest level since November 1993, except for the start of the Iraq War in 2003. The Confidence Index now stands at 75.0, down from 87.3 in January. Based on a survey of 5000 households, this index measures consumers' assessments of current economic conditions, including ability to find a job. Additionally, the Conference Board's index of consumer expectations is at its lowest level since January 1991. The decline in this index indicates that very few consumers expect conditions to turn around in the months ahead. The drop in consumer confidence was echoed in the Reuters/University of Michigan Consumer Sentiment Index (Sentiment Index), which dropped in February to 70.8, down from 78.4 last month and 96.9 in January 2007. Previously the Sentiment Index has fallen to this level only during recessions.

## IN FOCUS

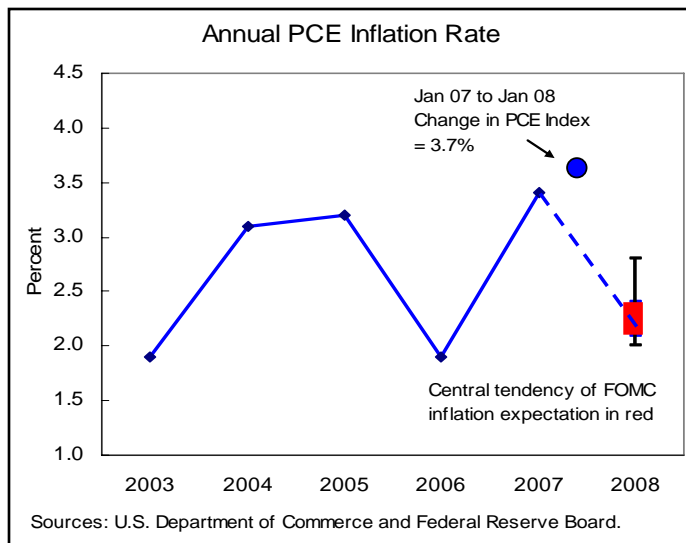
### Not So Great Expectations

When Federal Reserve Chairman Ben Bernanke testified before Congress last week, his outlook for the real economy was downbeat, reflecting views previously expressed in the minutes of the January 29-30 meeting of the Federal Open Market Committee (FOMC). The central tendency of the FOMC forecast for GDP growth is 1.3 to 2 percent, and for unemployment it is 5.2 to 5.3 percent. The associated risks are also weighted in the wrong direction. Steeper house price declines are recognized as a risk, because they will further reduce household wealth and access to credit. And the financial markets remain a wild card. Should banks and other financial intermediaries continue to experience large losses, credit could contract in new ways, weakening output and employment, which could bring further losses to banks.

When asked if the economy was moving into "stagflation," the unhappy circumstance where GDP growth is weak and price levels are rising, he rejected that idea, noting that current economic conditions remain significantly different from those of the 1970's, when the term first came into use. In fact the FOMC forecast is for declining price inflation. (See Snapshot) For 2008 the central tendency of the projected annual percentage change in the personal consumption expenditure price index (PCE) falls in the interval 2.1 to 2.4. While price inflation in that range is higher than projections made by the FOMC in October, it is well below

*Continued on reverse...*

## SNAPSHOT



Sources: U.S. Department of Commerce and Federal Reserve Board.

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## THE WEEK AHEAD

DAY	RELEASE
Monday, Mar 3	Construction Spending (January 2008)
Wednesday, Mar 5	Productivity and Costs (Fourth Quarter 2007, Revised) Manufacturers' Shipments, Inventories and Orders (January 2008)
Thursday, Mar 6	JEC Hearing — <b>Investing in the Future of the Federal Work Force</b> , Room 2154, Rayburn House Office Building, 9:30 a.m.
Friday, Mar 7	JEC Hearing — <b>The Employment Situation: February 2008</b> , Room 628, Dirksen Senate Office Building, 9:30 a.m. Consumer Credit (January 2008)

**Friday  
Mar 7th:  
JEC Hearing on  
the BLS  
February  
Employment  
Report**

## THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Jan	Dec	Nov	2007 Q4	2007 Q3	2007 Q2	2007	2006
Real GDP Growth (%)	—	—	—	0.6	4.9	3.8	2.2	2.9
Unemployment (% of labor force)	4.9	5.0	4.7	4.8	4.7	4.5	4.6	4.6
Labor Productivity Growth (%)	—	—	—	1.8	6.0	2.2	1.6	1.0
Labor Compensation Growth (%)	—	—	—	3.4	3.1	3.5	3.4	3.1
CPI-U Inflation (%)	4.9	4.9	11.4	5.0	2.8	4.6	2.9	3.2
Core CPI-U Inflation (%)	3.7	2.4	2.4	2.5	2.5	2.0	2.3	2.5

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

## IN FOCUS (Continued)

the current rate of inflation. January data released last week show that the PCE index has increased by 3.7 percent from a year ago.

The PCE inflation projections turn on the markets for energy and food, the prices of which have risen rapidly over the past year and made a major contribution to movements in the PCE. According to the FOMC, "[o]verall PCE inflation was projected to decline from its current elevated rate over the coming year, largely reflecting the assumption that energy and food prices would flatten out. Thereafter, overall PCE index inflation was projected to move largely in step with core PCE inflation." As Chairman Bernanke indicated in his Congressional testimony, the Fed's commodity price projections are based on indications from relevant futures markets and on the slowing real economy.

Even as Chairman Bernanke was testifying, some unanticipated and undesirable financial market risks were being realized. Some municipal issuers of auction rate bonds, faced with disorder and higher interest rates in that financial market, have sought to replace their bonds with so-called variable rate debt obligations (VRDOs). However, VRDOs require credit backstops from third parties such as banks, and bank balance sheets are not in great shape. So existing borrowers and new issuers may need to line up for backstop financing or find other sources of finance beyond the VRDOs. In the process, municipal finance costs are likely to rise, and spending plans may be interrupted or deferred.